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USADB

FOR NAC AGENCIES

E.O. 11652: DECLAS 12/31/74

TAGS: EAID, EFIN, RP

SUBJ: PROPOSED ADB LOAN - MANILA WATER SUPPLY PROJECT-PHIL-
IPPINES

SUMMARY: ADB MANAGEMENT PROPOSES US\$51.3 MILLION
EQUIVALENT LOAN TO METROPOLITAN WATERWORKS AND SEWERAGE
SYSTEM (MWSS) WITH GOVT OF PHILIPPINES AS GUARANTOR
TO FINANCE FOREX COSTS OF EXPANSION AND IMPROVEMENT OF
MWSS WATER SUPPLY AND DISTRIBUTION SYSTEM TO PROVIDE AN
ADDITIONAL 120 MILLION GALLONS PER DAY (MGD). PROJECT,
LARGEST SINGLE LOAN YET TO BE MADE BY BANK, IS PART A OF
TWO-PART PROGRAM TO MEET DEMAND IN METROPOLITAN MANILA
AREA UP TO 1982. ALTHOUGH CONCERNED WITH PROCUREMENT
ASPECT AND MWSS FINANCIAL VIABILITY, USADB RECOMMENDS
FAVORABLE NAC ACTION. END SUMMARY

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1. ADB DOC R71-74 WITH ATTACHEMENTS DESCRIBING PROPOSED

LOAN POUCHED JULY 25. BOARD CONSIDERATION SCHEDULED AGU 15.

2. ADB MANAGEMENT PROPOSING \$51.3 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES. PROCEEDS OF LARGEST SINGLE LOAN TO BE UNDERTAKEN BY BANK, WILL FINANCE FOREX COST OF RAISING DAM AND CONSTRUCTING NEW INTAKE AND EXPANSION OF ASSOCIATED TUNNELS AND AQUEDUCTS; CONSTRUCTION OF NEW WATER TREATMENT FACILITIES OF 120 MGD CAPACITY PLUS INCREASING CAPACITY OF PUMPING STATIONS; INSTALLATION OF ABOUT 67 KM OF TRANSMISSION AND PRIMARY MAINS AND ABOUT 220KM OF SECONDARY DISTRIBUTION MAINS; INSTALLATION OF 145,000 NEW METERS AND 1400 FIRE HYDRANTS; FACILITIES FOR TRANSPORT, COMMUNICATIONS, LEAKAGE CONTROL; WORKSHOPS AND METER REPAIR SHOPS; AND CONSULTANT ENGINEERING SERVICES FOR DESIGN AND CONSTRUCTION SUPERVISION. PROPOSED TERMS ARE 25 YEARS AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD. INTEREST RATE TO BE THAT PREVAILING AT DATE OF APPROVAL OF PROPOSED LOAN. MWSS TO BE BORROWER AND EXECUTING AGENCY; REPUBLIC OF PHILIPPINES GUARANTOR.

3. PROJECT WHEN COMPLETED WILL BE FIRST PART (PART A) OF PROGRAM WHICH WILL EVENTUALLY PROVIDE 240 MGD AVERAGE DAILY WATER SUPPLY TO MEET REQUIREMENTS UP TO 1982. IN VIEW OF MAGNITUDE OF PROGRAM, BOTH IN TERMS OF CAPITAL INVESTMENT AND SCOPE, IT HAS BEEN DIVIDED INTO TWO PARTS: PART A (THE PROJECT) NOW UNDER CONSIDERATION FOR BANK FINANCING AND PART B, FINANCING FOR WHICH MWSS WILL ARRANGE BY 1976. PART A INCLUDES ALL THOSE PROGRAM ELEMENTS AND COMPONENTS FOR WHICH DEFERMENT WOULD BE UNECONOMIC, IMPRACTICAL OR TECHNICALLY WOULD INTERFERE WITH PARTIAL COMMISSIONING, AS WELL AS ONE-HALF OF EXPANSION OF SAN JOSE TREATMENT PLANT AND TERMINAL STORAGE RESERVOIR AT BAGBAG. PART A INCLUDES EXTENSION OF DISTRIBUTION SYSTEM IN NORTHWESTERN SECTOR OF SERVICE AREA WHICH ADJACENT TO TERMINAL RESERVOIR AND SERVICEABLE BY GRAVITY FLOW; ALSO PRIMARY AND SECONDARY MAINS, EXPANSION OF PUMPING PLANTS AND BALARA TREATMENT PLANT TO COMPLEMENT INCREASED WATER SUPPLY BEING MADE AVAILABLE. PART A ALSO INCLUDES 50 PERCENT OF TOTAL NEW METERS NEEDED TO IMPROVE BILLING PLUS MOTOR VEHICLES, COMMUNICATION EQUIPMENT AND O AND M WORKSHOP. PART A WHEN COMPLETED WILL ENABLE PRODUCTION, TREATMENT AND DISTRIBUTION TO CONSUMERS LIMITED OFFICIAL USE

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UP TO MAXIMUM OF 150 MGD (120 MGD AVERAGE) ADDITIONAL SUPPLY, AND INCLUDES INDIVISIBLE COMPONENTS OF EVENTUAL PROGRAM WHICH AFTER COMPLETION PART B WILL ENABLE EXPANSION TO MAXIMUM OF 300 MGD (AVERAGE SUPPLY 240 MGD) INCREASE IN SYSTEM CAPACITY.

4. CONSULTING ENGINEERING SERVICES TO BE PROVIDED UNDER PROJECT (PART A) INCLUDE REVIEW OF PROPOSED DESIGN AND

PREPARATION OF DETAILED DESIGNS AND SPECIFICATIONS;
PREPARATION TENDER DOCS FOR MATERIALS, EQUIPMENT AND CIVIL
ENGINEERING WORKS; ASSISTANCE IN PREQUALIFYING CIVIL WORKS
CONTRACTORS AND EVALUATION OF BIDS; RECOMMENDING AWARDS,
SUPERVISING CONSTRUCTION, TRAINING MWSS PERSONNEL IN O&M;
SELECTION OF METERS AND RECOMMENDATION FOR THEIR INSTALLA-
TION; SETTING UP RECORD SYSTEM AND MAINTENANCE PROGRAM;
REVIEW OF LEAKAGE CONTROL PROGRAM AND HYDROMETEOROLOGICAL
AND HYDROLOGICAL DATA.

5. PRESENT SERVICE AREA OF METROPOLITAN MANILA COVERS 5
CITIES AND 22 MUNICIPALITIES HAVING TOTAL AREA 1470 SQ.KM.
WHITH PRESENT POPULATION ABOUT 5.4 MILLION WHICH HAS BEEN
INCREASING AT ESTIMATED RATE OF 4.9 PERCENT PER ANNUM.
MWSS NOW SERVES ABOUT 4.3 MILLION WITH REMAINING MILLION
HAVING NO ACCESS TO PUBLIC WATER SUPPLY. (SOME PRIVATE
WATER SUPPLY SYSTEMS SERVE INSTITUTIONS AND OUTLYING
HOUSING ESTATES.).

6. EXISTING MWSS PRODUCTION SYSTEM SUPPLIES AVERAGE 310
MGD OF WHICH 97 PERCENT DELIVERED FROM BALARA TREATMENT
PLANT TO CENTRAL DISTRIBUTION SYSTEM. BALARA FED FROM 4
SURFACE SOURCES (ANGAT AND MARIKINA RIVERS AND FROM
NOVALICHES AND ALAT CATCHMENTS) WITH MAIN SUPPLY FROM IPO
DAM ON ANGAT RIVER ABOUT 25 KM NORTHEAST OF TREATMENT
PLANT. WATER FLOWS VIA IPO-BICTI TUNNEL AND 3 AQUEDUCTS
TO NOVALICHES RESERVOIR, THENCE TO BALARA WITH DESIGN
CAPACITY 300 MGD AND MAXIMUM (OVERLOAD) CAPACITY 360 MGD
WHICH ABLE COPE WITH DEMAND UNTIL 1974/75 BUT SHORTAGES
WILL OCCUR THEREAFTER.

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7. EXISTING DISTRIBUTION NETWORK COVERS 25 PERCENT OF BUILT-UP AREA, IS SUBDIVIDED INTO 5 PRESSURE ZONES ACCORDING TO TOPOGRAPHY. HOWEVER, SEVENTY PERCENT OF MAINS ARE UNDERSIZED (BELOW 150 MM) AND MOSTLY AGED, UNLINED GALVANIZED IRON PIPES HIGHLY SUSCEPTIBLE CORROSION AND FREQUENT LEAKAGE. 600 KM OF STREETS IN SERVICE AREA LACK RETICULATION MAINS, HENCE INADEQUATE AND UNDERSIZED MAINS PREVENT NECESSARY INCREASE IN PRESSURE RESULTING IN NEED FOR COSTLY AND UNECONOMIC RELIANCE ON INDIVIDUAL STORAGE AND BOOSTER PUMPS BY CONSUMERS. IN 1973 ONLY 43 PERCENT OF PRODUCTION WAS BILLED, AND ONLY ABOUT HALF OF THE BILLED AMOUNT WAS READ FROM METERS, WITH RESULTANT HEAVY LOSSES IN REVENUE ATTRIBUTED TO WASTAGE, UNDERASSESSMENT, DEFECTIVE METERS RESULTING IN UNDERBILLING; HYDRANT USES FOR FLUSHING AND FIRE-FIGHTING; ILLEGAL CONNECTIONS; UNRECORDED USAGE AND LEAKAGES IN DISTRIBUTION SYSTEM.

8. LAST MAJOR IMPROVEMENT IN SYSTEM WAS MADE FROM 1965 TO 1972 FINANCED BY US\$20.2 MILLION IBRD LOAN TO MWSS PREDECESSOR AND BASED ON FEASIBILITY STUDY BY METCALF & LIMITED OFFICIAL USE

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EDDY (USA). IBRD PROJECT INCLUDED SECOND IPO-BICTI TUNNEL; BICTI-NOVALICHES AND NOVALICHES-BALARA AQUEDUCTS; FLOCCULATION AND DESIMENTATION BASINS AT BALARA, FILTERS, PUMPING STATIONS, RESERVOIRS AND PIPELINES AS INTERIM PROGRAM TO MEET URGENT NEEDS. PROJECTED WATER DEMAND OF MANILA AREA WHICH NOW ACCOUNTS FOR 12 PERCENT TOTAL PHILIPPINE POPULATION ESTIMATED TO RANGE FROM 3.1 TO 3.4 MILLION CU.M/DAY BY 1985, WITH MORE THAN HALF REQUIRED FOR DOMESTIC USE.

9. IN 1968, METCALF AND EDDY EXAMINED FIVE ALTERNATIVE SURFACE SOURCES WITHIN 60 KM RADIUS OF MANILA TO ASSESS THEIR RELATIVE PRIORITY AND FEASIBILITY FOR DEVELOPMENT AND DETERMINED THAT A SECOND PHASE ABSTRACTION FROM EXISTING PRINCIPAL SOURCE (ANGAT RIVER) WAS MOST ECONOMIC ON BASIS OF INVESTMENT, AND O&M COSTS, HAVING A POTENTIAL OF 240 MGD. (THE SECOND MOST ECONOMIC SOURCE, THE LAKE OF LAGUNA DE BAY WAS QUALIFIED WITH CAVEAT THAT ITS USE SHOULD BE POSTPONED

UNTIL POLLUTION CONTROL OF WATERSHED COULD BE ENFORCED.) THESE FINDINGS WERE RECENTLY CONFIRMED BY ANOTHER GROUP OF FRENCH AND GERMAN CONSULTANTS (SOGREAH HYDROTECHNIK GMBH AND BECEOM) FOR LAGUNA DE BAY WATER RESOURCES DEVELOPMENT PROJECT. GROUNDWATER RESOURCES, ALTHOUGH NOW UTILIZED BY MWSS TO SUPPLEMENT TOTAL SUPPLY (ABOUT 3 PERCENT TOTAL SUPPLY PROVIDED BY 76 DEEP WELLS FROM THIS SOURCE), ARE LIMITED AND COSTLY AND CONSIDERED UNRELIABLE AS WATER TABLE IS FALLING. ANGAT RIVER PROVIDES GOOD QUALITY WATER AFTER TREATMENT TO REMOVE TURBIDITY AND CHEMICAL IMPURITIES AND IS POTABLE WITH CHLORINATION.

10 MWSS ALSO RESPONSIBLE FOR SEWAGE DISPOSAL AND ADMINISTERS TWO SYSTEMS IN WHICH SERVICES AREA ESTIMATED POPULATION OF 480,000. MOST OF REMAINING POPULATION USE INDIVIDUAL SEPTIC TANKS WHICH INEFFICIENT IN REMOVING POLLUTION SINCE RAW EFFLENT DISPOSAL INTO SURFACE DRAINS AND NATURAL STREAMS CAUSES PUBLIC HEALTH HAZARD, ESPECIALLY DURING FREQUENT FLOODS. ALSO, MAIN RAW SEWAGE OUTFALL TO MANILA BAY NEAR MOUTH OF PASIG RIVER DISCHARGES CLOSE TO FORESHORE AREA (DUE TO LAND RECLAMATION AND OUTFALL DAMAGE). MWSS HAS AGREED TO FORMULATE WITHIN 2 YEARS SPECIFIC PROPOSAL FORMULATING PLAN FOR IMPROVEMENT AND EXPANSION SEWERAGE LIMITED OFFICIAL USE

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DISPOSAL FACILITIES AS RECOMMENDED BY UNDP-FINANCED CONSULTANT IN 1967. (SIDE LTR NO. 4 PARA 8).

11. STORM DRAINAGE SYSTEMS IN MANILA SERVICE AREA ARE ADMINISTERED BY BUREAU OF PUBLIC WORKS (BPW). LOCAL FLOODING IS FREQUENT DUE TO INADEQUATE STORM DRAINS AND DISRUPTION OF NATURAL DRAINAGE OUTLETS BY URBAN DEVELOPMENT; SILTING OF TIDAL DRAINAGE CANALS AND CREEKS THROUGH WHICH CONSIDERABLE POLLUTED SEWAGE EFFLUENT IS DISCHARGED. PROPOSED EXPANSION OF WATER SUPPLY WILL AGGRAVATE PROBLEM TO SOME EXTENT AND INCREASED RELIANCE ON SEPTIC TANKS IS REQUIRED UNTIL DEVELOPMENT AND EXECUTION OF LONG-TERM WASTE WATER DISPOSAL PLAN.

12. IT SHOULD BE NOTED THAT LEAST-COST ABSTRACTION SOURCE AS DETERMINED BY U.S. CONSULTANTS IS IPO DAM ON ANGAT RIVER WHICH DOWNSTREAM OF MULTIPURPOSE ANGAT DAM AT SAN LORENZO OPERATED BY NATIONAL POWER CORPORATION (NPC). SINCE IN 1962, MWSS PREDECESSOR CONTRIBUTED PESOS 21.5 MILLION TO CAPITAL COST OF CONSTRUCTIONS, NPC AGREED TO ALLOT 500 MGD TO MANILA FOR WATER SUPPLY OF WHICH 300 MGD HAS BEEN UTILIZED FOR EXISTING (FIRST PHASE) ABSTRACTION. PROPOSED PROGRAM WILL UTILIZE REMAINING AVAILABLE 200 MGD. BY CAREFUL REGULATION OF RELEASES OF WATER FROM ANGAT DAM, MWSS WILL BE ABLE TO ABSTRACT AN AVERAGE FLOW OF 540 MGD

AT IPO DAM. (THE ADDITIONAL 40 MGD TO BE DERIVED FROM NATURAL RUN-OFF IN INTERVENING CATCHMENT BETWEEN SAN LOREANZO AND IPO.) GIVT HAS ASSURED (SIDE LTR NO 4 PARA 6) MWSS WILL RECEIVE ADDITIONAL AVERAGE SUPPLY 240 MGD NEEDED FOR PROJECT AND PROGRAM.

13. IN 1973, BANK FINANCED TA TO UPDATE 1968 METCALF & EDDY STUDIES AND TO CALCULATE DEMAND FORECASTS IN THE SERVICE AREA; REVIEW HYDROLOGICAL DATA OF ANGAT RIVER BASIN AT SAN LORENZO AND TO PREPARE REVISED COST ESTIMATES FOR SECOND PHASE ABSTRACTION PROGRAM. THIS STUDY WAS UNDERTAKEN CONCURRENTLY WITH AN ANALYSIS OF INSTITUTIONAL AND LEGAL ASPECTS OF MWSS CONDUCTED BY A CONSULTANT FROM FRENCH SOGREAH FIRM UNDER MANDATE OF UNDP-FINANCED LAGUNA DE BAY WATER RESOURCES DEVELOPMENT STUDY (SEE PARA 10 ABOVE) FOR WHICH BANK SERVING AS EXECUTING AGENCY. PHILIPPINE LIMITED OFFICIAL USE

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GOVT THEN REQUESTED BANK TO FINANCE THIS PROJECT ON BASIS OF CONSULTANTS' FINDINGS AND RECOMMENDATIONS.

14. TOTAL COST OF PROGRAM (PARTS A AND B) ESTIMATED AT US\$159.24 MILLION WITH FOREX COMPONENT OF US\$86.74 MILLION (P589.81 MILLION). THIS ESTIMATE INCLUDES 7 1/2 PERCENT PER ANNUM COST DONTINGENCY UNTIL COMPLETION AND 15 PERCENT FOR PHYSICAL (CONSTRUCTION VOLUMES) CONTINGENCIES. TOTAL COST OF PROJECT (PART A) ESTIMATED AT US\$118.43 MILLION EQUIVALENT OF WHICH FOREX COMPONENT OF US\$1.3 MILLION TO BE FINANCED FROM PROPOSED LOAN. LOAN PROCEEDS WOULD FINANCE FOREX COMPONENTS OF SUPPLY FACILITIES (\$6.08); TREATMENT FACILITIES (\$4.5); DISTRUBTION FACILITIES (\$19.88); METERS (\$6.4); MISCELLANEOUSFACILITIES (\$3.15); ENGINEERING SERVICES \$4.6) WITH CONTINGENCY ALLOWANCE OF \$6.69 (ABOVE FIGURES IN MILLIONS). PROJECT ESTIMATED TO TAKE 4 YEARS WITH COMMISSIONING SCHEDULED MID-1979. FINANCING FOR PART B OF PROGRAM NOT YET ESTABLISHED, BUT GOVT AND MWSS OBLIGED TO FIRM UP THESE ARRANGEMENTS SO THAT CONSTRUCTION PART B STARTS BY MID-1976 AND IS COMPLETED BY END OF 1979.

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15. PROCUREMENT TO BE GOVERNED BY MWSS PREFERENCE TO AVOID WHERE POSSIBLE SEPARATE CONTRACTS FOR SUPPLY OF MATERIALS/ EQUIPMENT AND FOR INSTALLATION/ERECTION. DURING IMPLEMENTATION OF IBRD-FINANCED ITERIM PHASE UNDUE DELAYS IN CONSTRUCTION SCHEDULES WERE ENCOUNTERED, HENCE MWSS FAVORS "SUPPLY AND INSTALL/LAY/CONSTRUCT" CONTRACTS FOR MOST ITEMS OF WORK IN PROJECT. CONTRACTS INVOLVING FOREX FINANCING TO BE AWARDED ACCORDING WITH GUIDELINES FOR PROCUREMENT, FOR ALL GOODS AND SERVICES TO BE FINANCED FROM LOAN PROCEEDS, ON BASIS OF TENDER DOCS TO BE PREPARED AND EVALUATED BY CONSULTANTS. HOWEVER, TO ACCOMMODATE PHILIPPINE GOVT STATUTORY REQUIREMENT PRESCRIBING GRANT OF 15 PERCENT PRICE PREFERENCE TO LOCAL EQUIPMENT MANUFACTURERS, BANK PROPOSES TO APPROVE "TWO-STEP" AWARD APPROACH IN EVEN LOCAL MANUFACTURER IS LOW BIDDER TAKING ACCOUNT OF PRICE PREFERENCE. IN SUCH CASE, BANK WOULD APPROVE AWARD TO LOCAL MANUFACTURER AND MWSS WOULD AGREE TO FINANCE SUCH SUPPLY CONTRACTS FROM ITS OWN FINANCIAL RESOURCES (SEE SIDE LTR NO 2 PARA 8). IT SHOULD BE NOTED THAT THIS 15 PERCENT STATUTORY PREFERENCE LIMITED OFFICIAL USE

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PROVISION APPLIES SOLELY TO THE SUPPLY OF GOODS OR MATERIALS AND IS NOT RPT NOT APPLICABLE TO CIVIL WORKS, TURN-KEY, OR "SUPPLY AND INSTALL/LAY/CONSTRUCT" CONTRACTS AS NOTED ABOVE WHICH MWSS CLAIMS TO PREFER.

16. BORROWER AND EXECUTING AGENCY (MWSS) IS WHOLLY GOVT-OWNED PUBLIC UTILITY CORPORATION, AND SECESSOR TO NATIONAL WATERWORKS AND SEWERAGE AUTHORITY (NWSA) WHICH WAS CHARACTERIZED IN INEFFECTUAL MANAGEMENT AND POOR FINANCIAL CONDITION LARGELY ATTRIBUTED TO UNREALISTICALLY LOW TARIFF, COUPLED WITH POOR BILLING AND COLLECTION PROCEDURES. MWSS ESTABLISHED AS NON-PROFIT ENTERPRISE SEPT 1971 WITH FULL AUTHORITY TO SUPPLY WATER AND ASSUME SEWERAGE AND WASTE DISPOSAL RESPONSIBILITY; AGENCY AUTHORIZED CONTRACT DEBTS. 1972 IBRD-RECOMMENDED MANAGEMENT STUDY NOTED DEFICIENT ADMINISTRATIVE AND FINANCIAL PRACTICES, SOME OF WHICH HAVE BEEN IMPROVED. WEAK AREAS NOTYET FULLY REMEDIED WERE LACK OF CAPITAL BUDGETING WHICH WILL BE IMPLEMENTED WITHIN NEXT 2 YEARS. BILLING AND COLLECTION SYSTEMS CONSIDERED SATISFACTORY, BUT BEING POORLY IMPLEMENTED. POOR BILLING PRACTICES ARE ATTRIBUTED TO DEFECTIVE METERS. MWSS HAS ASSURED IT WILL STRICTLY ENFORCE ITS BILLING AND COLLECTION PROCEDURES (SIDE LTR NO 4 PARA (D)) AND IMPROVE ITS METERING PROGRAM (SIDE LTR NO 3 PARA 3 (B)).

17. AS MENTIONED ABOVE, PRESENT FINANCIAL CONDITION OF MWSS IS EXTREMELY WEAK. UNREALISTIC TARIFF STRUCTURE TOGETHER WITH POOR BILLING AND COLLECTION PRACTICES HAVE RESULTED IN NET OPERATING LOSSES SEVEN CONSECUTIVE YEARS FROM FY 1967 ONWARD. ALTHOUGH GROSS REVENUE HAS BEEN INCREASING, RATION OF WATER SOLD TO THAT PRODUCED HAS BEEN EXCEPTIONALLY LOW - ONLY 43 PERCENT IN 1973. OPERATING EXPENSES HAVE ALSO RISEN, EXCEPT FOR SHARP DECLINE IN FY 73 WHEN MSWW REASEASED 1000 EMPLOYEES. SUBSTANTIAL INTEREST PAYMENTS ON BORROWED FUNDS TO PAY FOR EXPANSION AND TO CARRY LOSS OPERATION HAVE BEEN HEAVY FINANCIAL BURDEN. IN ADDITION, POOR FINANCIAL PRACTICES HAVE RESULTED IN MWSS CARRYING ACCOUNTS RECEIVABLES EQUIVALENT TO 10 MONTH SALES (WITHOUT WRITING OFF BAD DEBTS) AND MAINTAINING FIXED ASSETS ON BOOKS FOR WHICH NEITHER PROPER VALUATION NOR SUFFICIENT DEPRECIATION ALLOWANCE HAS BEEN PROVIDED. THUS BY FY LIMITED OFFICIAL USE

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1973, CONTINUING LOSSES HAD PRACTICALLY ELIINATED CAPITAL BASE AND ABSORBED ALL WORKING CAPITAL.

18. IN ORDER TO IMPROVE CONDITION OF MWSS, GOVT AUTHORIZED CREATION OF P1 BILLION EQUITY BASE BY PRESIDENTIAL DECREE WITH INITIAL CAPITAL OF APPROXIMATELY P457 MILLION TO COME FROM CONVERSION OF DEBTS AND INTEREST PAYMENTS DUE TO GOVT. ALSO MWSS TARIFF STRUCTURE WAS REVISED IN MAY 1974 (FIRST CHANGE IN 10 YEARS), PROVIDING PROGRESSIVE RATE SCHEDULE TO BE REVIEWED AND REVISED FROM TIME TO TIME TO INSURE ADEQUATE RETURN ON FIXED ASSETS OF MWSS. FIXED ASSETS TO BE DEPRECIATED ON STRAIGHT-LINE METHOD ON

SHORTER LIFE SPAN TO PROVIDE REALISTIC TARIFF BASE. IN ADDITION, LOAN AGREEMENT WITH BANK PROVIDES FINANCIAL BENCHMARKS WHICH WILL ASSIST IN MAINTAINING MWSS IN ACCEPTABLE FINANCIAL CONDITION. AMONG OTHERS, MWSS IS REQUIRED TO ACHIEVE RETURN OF NOT LESS THAN 8 PERCENT ON ITS DEPRECIATED FIXED ASSET BASE AND WILL BE FORBIDDEN TO BORROW ADDITIONAL FUNDS UNLESS DEBT SERVICE RATIO IS AT LEAST 1.5 TIMES AFTER CONTRACTING NEW DEBTS. AN INDEPENDENT PUBLIC ACCOUNTING FIRM ACCEPTABLE TO BANK IS TO BE RETAINED TO AUDIT FINANCIAL RECORDS AND CERTIFY MWSS COMPLIANCE WITH REQUIREMENTS ET FORTH IN LOAN AGREEMENT.

19. BANK CONSIDERS PROPOSED PROJECT TO BE TECHNICALLY SOUND AND ECONOMICALLY VIABLE. GOVT HAS ACCORDED PROJECT HIGH PRIORITY IN ITS FOUR-YEAR DEVELOPMENT PLAN (FY 1974-77). INTERNAL FINANCIAL RATE OF RETURN AT 16.3 PERCENT. PROJECT HAS BROAD SOCIAL WELFARE IMPACT ON METROPOLITAN MANILA AREA.

20. USADB NOTES THAT PROPOSED DEPARTURE FROM BANK'S PROCUREMENT GUIDELINES JUSTIFIED UNDER ART 14 (XI) OF CHARTER WHICH REQUIRES BORROWER TO OBTAIN GOODS AND SERVICES ON BASIS INTERNATIONAL COMPETITIVE BIDDING UNLESS "SPECIAL CIRCUMSTANCE" INDICATES APPROPRIATENESS OF DIFFERENT PROCEDURE. EXISTING PHILIPPINE 15 PERCENT PREFERENCE LAW DESIGNED TO ENCOURAGE AND PROTECT INFANT DOMESTIC INDUSTRY IS PRESUMABLY "SPECIAL CIRCUMSTANCE" DEEMED APPLICABLE. WITH REGARD THIS PROVISION IN CURRENT PROJECT, LIMITED OFFICIAL USE

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BANK'S STAFF EXPLAINED 15 PERCENT PREFERENCE CLAUSE EXPECTED TO ENABLE LOCAL WATER METER MANUFACTURERS TO TENDER FOR AT LEAST PORTION OF PROJECT METERS. FURTHER, PHILIPPINE GOVT OFFICIALS REFUSED TO WAIVE PREFERENCE STATUTE DURING LOAN NEGOTIATIONS.

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21 USADB QUESTIONS WHETHER ADVISABLE FOR BANK TO ACCEPT PREFERENCE STATUTE REGARDING PROCUREMENT THIS PROJECT. APPEARS LIKELY THAT TWO-TIER EVALUATION PROCEDURE MAY DISCOURAGE FOREIGN SUPPLIERS FROM SUBMITTING BIDS THEREBY UNDERMINING INTERNATIONAL COMPETITIVE BIDDING PROCEDURE. IN ADDITION, ACCEPTANCE BY BANK OF 15 PERCENT PREFERENCE STATUTE ESTABLISHES PRECEDENT IN THAT BANK WILL THUS FORMALLY RECOGNIZE PREFERENCE CONCEPT FOR FIRST TIME WHICH FACILITATES NEXT LOGICAL STEP OF BANK PROVIDING FOREX FOR AWARDS WON BY LOCAL MANUFACTURERS UNDER PREFERENCE ARRANGEMENT.

22. PREFERENCE STATUTE WAIVED BY PHIL. GOVT IN PREVIOUS BANK-FINANCED PROJECTS. IN ADDITION WISH TO RECALL TWO PREVIOUS ADB PROJECTS IN RP IN WHICH PROPOSED PROCUREMENT ABNORMALITIES WERE CONTESTED BY NAC AND, HENCE, BY U.S. DIRECTOR. IN COTABATO-GENERAL SANTOS ROAD PROJECT, PROPOSED LOAN AGREEMENT LIMITED BIDDING TO LOCAL CONTRACTORS, YET AT INSISTENCE OF USG (REF STATE 206619 DEC 70) ADB AND RP AGREED TO DELETE OBJECTIONABLE PROVISION. MORE RECENTLY, LIMITED OFFICIAL USE

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IN ANGAT MAGAT PROJECT, LOAN AGREEMENT LIMITED SUPPLIER ELIGIBILITY FOR SOME ITEMS TO PHIL SUPPLIERS, PROCEDURE QUESTIONED BY NAC (REF TRSY 0271546Z JUN 73) AND FULLY EXPLORED BY U.S. DIRECTOR IN EXCHANGE OF CORRESPONDENCE WITH BANK MANAGEMENT. IN LIGHT THESE PREVIOUS DIFFICULTIES AND HISTORY U.S. OBJECTIONS TO ABNORMALITIES IN BANK'S PROCUREMENT PROCEDURES, USADB ESPECIALLY CONCERNED ABOUT CURRENT DEVIATION FROM STANDARD BANK PROCUREMENT GUIDELINES.

23. IN ADDITION TO PROCUREMENT DIFFICULTIES, USADB VERY MUCH CONCERNED WITH POOR FINANCIAL PERFORMANCE OF MWSS AND INTENDS TO FULLY STRESS IMPORTANCE OF EFFECTIVELY IMPLEMENTING FINANCIAL REFORMS AS WELL AS NEED TO ENFORCE STRICT ADHERENCE TO SAFEGUARDS STIPULATED IN LOAN AGREEMENT AND SIDE LETTERS.

24. IN VIEW OF CONCERNS WITH PROCUREMENT MATTERS AND FINANCIAL VIABILITY IN MWSS, SUGGEST CONSULTATIONS APPROPRIATE IBRD PROFESSIONAL STAFF REGARDING WORLD BANK EXPERIENCE WITH MANILA WATER SUPPLY PROJECT INITIATED IN 1967 IN WHICH MANY SIMILAR PROBLEMS AND CONCERNS PREVAILED.

25. GIVEN CAVEATS NOTED ABOVE, USADB SUPPORTS PROPOSAL WHILE INTENDING TO URGE IN BOARD DISCUSSION REVERSION TO USUAL PROCUREMENT PRACTICES AS WELL TO EMPHASIZE NECESSITY OF STRICT ADHERENCE TO FINANCIAL SAFEGUARDS. FAVORABLE NAC ACTION IS RECOMMENDED.

26. U.S. MISSION MANILA PREPARING COMMENTS SEPTTEL PURSUANT TO STATE 119795 DTD 3 JULY 1972.
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Concepts: WATER SUPPLY SYSTEM, SEWAGE SYSTEM, TECHNICAL ASSISTANCE, GOVERNMENT BUDGET, EQUIPMENT, PROCUREMENT, BANK LOANS, CONSULTANTS, LOAN AGREEMENTS
Control Number: n/a
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Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Disposition Event:
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Review Comment: n/a
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Review Release Date: n/a
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Review Withdrawn Fields: n/a
Secure: OPEN
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Subject: PROPOSED ADB LOAN - MANILA WATER SUPPLY PROJECT-PHIL- IPPINES
TAGS: EAID, EFIN, RP, ADB-1
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005